



March 22, 2017

Market Renewal Stakeholder Engagement
Independent Electricity System Operator
Attn: Ryan King, Senior Advisor Stakeholder and Public Affairs

Submitted via email

Dear Ryan:

Re: Market Renewal Stakeholder Consultations

AMPCO is the voice of industrial power users in Ontario. Our mission is industrial electricity rates that are competitive, fair and efficient.

Attached are AMPCO's comments to the IESO on the Brattle Group's draft Benefits Case in regards to the Market Renewal Initiative. AMPCO appreciates the opportunity to provide such feedback.

Best Regards,

[Original signed by]

Colin Anderson
President

Association of Major Power Consumers in Ontario
Thomson Building
65 Queen Street West, Suite 1510
Toronto, Ontario M5H 2M5

Website: www.ampco.org
T: 416-260-0280
F: 416-260-0442

Market Renewal Initiative

Submissions of the Association of Major Power Consumers in Ontario (AMPCO)

INTRODUCTION

Ontario's electricity system is complex and almost always changing. AMPCO provides Ontario industries with effective advocacy on critical electricity policies, timely market analysis and expertise on regulatory matters that all affect their bottom line. We are the forum of choice for major power consumers who recognize that their business success depends on an affordable and reliable electricity system.

These are the submissions of the Association of Major Power Consumers in Ontario in relation to the IESO's Market Renewal (MR) Project. AMPCO's Members are major power consumers, responsible for over 15 TWh of annual load in the province. A robust, efficient and affordable energy supply is critical to the success of their businesses, which is why AMPCO has an interest in this consultation.

AMPCO appreciates the opportunity to provide feedback and looks forward to continued dialogue with the IESO.

COMMENTS ON THE GOAL OF THE MARKET RENEWAL PROJECT

On February 24, 2017 the IESO presented a goal statement for the MR project and discussed it with the Working Group in the morning. A revised statement was then presented to the broader stakeholder community in the afternoon. The revised goal statement read as follows:

“Market Renewal will deliver a more efficient, stable marketplace with competitive and transparent mechanisms that meet system and participant needs at lowest cost.”

While AMPCO appreciates that this was discussed with the Working Group, there was little opportunity for consultation with (or feedback from) the larger stakeholder community. Accordingly, AMPCO wishes to provide the following comments:

- AMPCO still feels the need to return to the November 28, 2016 speech at the Empire Club of Canada by Energy Minister Thibeault. That speech sets out a single, clear goal for Market Renewal - cost control.

“Not only must we endorse the goals of Market Renewal, but embrace them as the effective next steps in Ontario’s wholesale market evolution and a key driver of cost containment in this sector. This reform will play a key part of achieving the goal of continued bending in the cost curve.” [emphasis added]

- In AMPCO’s submission, attributes such as efficiency, stability and transparency (all referenced in the revised goal statement above) all serve the goal of lowering costs - they don’t necessarily represent end goals in and of themselves. Transparency, for example, serves little purpose as an end goal - rather, it is sought after in order to improve one’s understanding and is used to achieve an end goal.
- These three attributes should not in any way be considered superordinate to cost control. The reverse is actually true - they are subordinate considerations and inform the “how” associated with the goal of cost control. Their importance should be measured by how much those three attributes serve the primary goal of reducing costs.
- AMPCO wishes to advance the following statement which it feels more properly emphasizes the cost control nature of the Market Renewal Initiative. It is quite similar to the prior statement, but reverses the order of the terms which more appropriately reflects which consideration is paramount. This ordering is echoed in Minister Thibeault’s speech delivered as part of the OEA Speaker Series on March 21, 2017, in which he states that “Success [in the Market

Renewal Initiative] will mean both significant ratepayer savings, and shareholder value.”:

“Market Renewal will achieve a reduction in costs to consumers by delivering a more efficient, stable marketplace with competitive and transparent mechanisms that meet system and participant needs.”

COMMENTS ON BRATTLE’S BENEFITS ASSESSMENT

The following are AMPCO’s comments on the Brattle Group’s Draft Benefits Assessment, dated March 3, 2017. They have been subdivided into two categories - General Comments on Findings and Opportunities for Improvement.

1. **General Comments on Findings** - these points deal with potentially significant shortcomings of the analysis:

- AMPCO believes that, in total, it is quite likely that overall project benefits will outstrip the costs associated with Market Renewal. However, AMPCO does not find the support for the quantum of either benefits or costs to be particularly compelling. The following points contribute to this assertion:
 - Total benefits are comprised of the sum of the benefits associated with the three workstreams - energy, capacity and operability. Of the three, capacity is by far the largest forecasted benefit¹.
 - Some of the benefits (most notably energy and operability) are quite modest when compared to the total annual value of the Ontario electricity market (approx. \$19B/yr). The error bands associated with the calculation of these benefits could be larger than the benefits themselves.

¹ Energy =\$84M per year, Operability =\$49M per year, and Capacity growing from zero initially to over \$600M per year in 2030 (according to Fig 22)

- There appears to be little proof as to whether these benefits can simply be summed together to arrive at a total benefit number, or if there is any double-counting in doing so.
- There likewise appears to be little consideration as to whether these benefits can stand alone. This gives rise to the question of whether all of the Market Renewal components need to be executed in a comprehensive fashion, or if high benefit items could be “cherry picked”. AMPCO is not suggesting that project scope be shed arbitrarily, but suggests that additional justification for a comprehensive undertaking of all aspects of Market Renewal should be provided.
- Related to the point above, AMPCO questions whether the benefits associated with the energy and operability streams would be sufficiently robust by themselves to warrant execution, in the absence of the Capacity workstream. This question is particularly meaningful given how long it will take to migrate from a contracted approach to a capacity auction approach. The only market renewal benefits that will possibly be available for many years are those associated with energy and operability.
- AMPCO remains uncertain that intermittent resources, within the context of a capacity market, have been adequately considered from a benefit perspective. AMPCO would like some additional information on how these resources participate and how the overall benefit is affected by the inclusion of resources that require physical backup. This is likely a design phase issue.
- Regulatory risk remains a significant consideration in Market Renewal. Despite Brattle’s assertions that their analyses have been appropriately normalized for the Ontario context, AMPCO sees little evidence of serious consideration of regulatory matters. For example, Ontario’s dominant supplier is rate-regulated. If the results of Market Renewal can be undermined by regulatory changes impacting OPG, this presents a significant and apparently unmitigated risk. Further, the capacity auction (the single largest source of Market Renewal

benefit) could be rendered ineffective by further supply directives issued by government. These material risks do not appear to have been appropriately dealt with in the analysis.

- AMPCO understands that, as currently presented in the Benefits Case, forecasted costs are currently eclipsed by forecasted benefits. However, given that the amount of both remains questionable, AMPCO feels that better quantification of all costs is appropriate.
- AMPCO believes that the stated IESO implementation costs associated with the Market Renewal project are too low. Brattle's suggested contingency of 20% on a \$200M base - at this stage in the project - is insufficient, given the lack of project definition. Brattle's later increase to \$300M is likely closer, but also serves to illustrate the point that lack of definition prohibits a robust cost estimate at this time.
- Similarly, AMPCO remains concerned about market participant costs, which have not been estimated at all. In AMPCO's submission, prior to any design decisions being made, all costs need to be assessed whether they are attributable to generators, loads or the system operator, since ultimately these costs will be borne by loads.
- The Benefits case describes the IESO project costs as being mostly capital with costs recovered from consumers during the first ten years of project in-service. However, IESO projects have traditionally been 50 to 70% capital funded, leaving \$60M to \$100M OM&A expenditure to be managed over the 4 years of the project timeframe through the IESO rate case (assuming \$200M project cost). Some comment on how this will be managed by the IESO may be warranted.
- Brattle asserts that Market Renewal will enable integration of new and emerging technologies. Similarly, statements are made in respect of how Market Renewal will facilitate distributed resources. AMPCO sees no evidence in the paper that supports either of these statements, and would appreciate some additional details.

- In the Brattle Group’s report (top of page 104) it is stated that Market Renewal intends to maximize total Ontario-wide efficiency benefits, which combines benefits to customers, suppliers, and other market participants. While AMPCO can accept this on some level, it is also mindful that “Consumption is the sole end and purpose of all production; and the interest of the producer ought to be attended to, only so far as it may be necessary for promoting that of the consumer.”²

2. Opportunities for Improvement - these points are not likely to materially change the outcome of the analysis, but addressing them would improve the document:

- Comments are made regarding out of merit generation being the result of a two schedule system. AMPCO is unconvinced that this causal relationship exists. Currently generation is dispatched in the constrained sequence, which should be consistent with a single schedule nodal system. Ontario’s system of cost guarantees is a significant source of expensive generation running out of merit - probably more so than the constrained sequence. One additional observation is that the market’s side payments (such as CMSCs) do not send a proper signal to loads - elimination of this can be both a positive and a negative for loads in the province.
- Page 31, Figure 3 appears to be the core evidence for the fundamental calculation of benefits. AMPCO wonders if the demand curve has as much to do with the price duration curve as the supply curve does. In order to make the leap to using the outcomes of other market studies as a proxy for Ontario benefits, AMPCO believes that there needs to be more development of this section.
- The section outlining Capacity Auction Benefits would be improved if the format and layout was consistent with the sections relating to Energy and Operability.

² Adam Smith, 18th Century Scottish Economist and Philosopher

Again, AMPCO appreciates the opportunity to provide feedback and will continue to work with the IESO and other stakeholders as we move forward.

All of which is respectfully submitted.

March 22, 2017